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SOME ASPECTS OF THE  
ECONOMIC PROBLEMS AND POLICIES OF INDONESIA

Address by the Indonesian Charge d'Affaires, Dr. Zairin Zain,  
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the Far East -America Council of Commerce and Industry at  
the Waldorf Astoria Hotel in New York.

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Mr. Chairman, Ladies and Gentlemen:

It is a great pleasure for me to appear before so distinguished an assemblage of experts on international economic policy. I am particularly pleased to speak on the topic chosen for this conference, because recognition of the need for cooperation is indispensable to the development of beneficial relationships in foreign trade.

I consider it auspicious that in a few days you will be celebrating the discovery of America by a somewhat earlier foreign visitor. I myself am engaged in discovering this great country, including the direction of the "trade winds" which figuratively shape your economic ventures abroad. I trust that you will reciprocate by discovering with me something of the economic problems and policies of my country, as a token of the cooperative effort which we are discussing here today.

I should like first to outline briefly the nature of these problems and policies.

Indonesia is overwhelmingly an agrarian country in which the population produces primarily for its own subsistence. In addition, it is also a producer of agricultural and extractive commodities for export, on the proceeds of which

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it relies heavily for the importation of almost all its capital goods, and of many indispensable items of consumers goods, inasmuch as the development even of secondary industries is at a very low level.

Despite tremendous natural resources including unexcelled fertility of its soil and vast wealth of raw materials which potentially place Indonesia in the front rank of the richest nations of the world, the standard of living of the people is pitifully inadequate.

Before the advent of colonialism, the Indonesian people boasted an agricultural technique as developed as any then known. They were skilled in weaving, pottery, metal work, building and the arts and craft. They built vessels in which they traversed the seas to trade products of their agriculture and home industries.

But just prior to the time they succumbed to colonial rule, their skills in agriculture and manufacturing had begun to fall behind the innovations which were then being introduced in the west, and this stagnation was intensified by the coming of foreign control. The colonial power concentrated on the production of primary commodities for export, and the population became increasingly dependent on imports even for finished goods previously produced in Indonesia. Finally, the Indonesians were unable to produce even the foodstuffs necessary for their subsistence.

It follows that the first problem of Indonesia is, inevitably, how to increase the production of subsistence crops. For example, during the past year Indonesia has been compelled to import approximately 750,000 tons of rice, valued at about \$140 million.

Rice is, of course, the primary staple of the Indonesian people and its availability at reasonable prices has a pervasive influence on the whole economy. Thus, the price of rice has a powerful effect on the general price

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level and is a direct determinant of inflationary or deflationary tendencies. The increase of rice production is, therefore, a matter to which the government gives foremost attention. We have, therefore, undertaken many important measures, such as the introduction of better agricultural techniques and the sending of many specialists from Indonesia to study in countries such as the United States, Italy, Japan and other centers of rice production to determine the most suitable techniques for Indonesia. We have also introduced credit facilities for farmers, encouraged cooperatives for processing and marketing crops and opened up new land. We have already been able to decrease the prospective amount of rice to be imported this year to only 300,000 tons, despite an increase in our population of 700,000 per annum, but much remains to be done. We hope to use some of the foreign exchange we are now saving through curtailment of rice imports for purchase of equipment and engineering services to introduce mechanized rice cultivation, reclamation of additional land and improved methods of irrigation, such as the projects already under way in Sumatra and Kalimantan.

This, of course, will open many opportunities for foreign groups to sell necessary equipment and provide technical services, and we assume that American firms will wish to participate in these programs.

With respect to our crops produced for export you are, of course, aware that many of them have not yet recovered their prewar volume. This is true with respect to United States imports from Indonesia, such as tobacco, tea, tapioca, spices (such as pepper), kapok and sisal. There has been improvement with respect to certain commodities, such as sugar. Last year's crop exceeded that of 1951 and this year an expected 600,000 tons will be harvested. Exports in 1952 were small due to increased local consumption but this year the export goal has been set at 150,000 tons. Since approximately twenty-five percent of

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our national income is attributable to exports, the government is taking active steps to improve our situation, as, for example, in the case of sugar, where we have rendered assistance to the large producers as well as to the small holders.

It is obvious that Indonesia has great possibilities for expanding its trade with the United States and other countries, and here again, we trust that Americans will take advantage of the opportunity to channel Indonesian exports to your shores which will provide Indonesia with the means to cover increasing amounts of its needs in the American market.

Communications on the one hand and development of production on the other are of necessity, inseparably interrelated. Though new sources of production may be developed, the centers of consumption are often situated elsewhere, and in many cases, even beyond the country's borders. The inadequacy of transportation which is also expressed in extremely high transportation costs, either totally prevents the establishment of new forms of production, or substantially impedes their economic growth. Furthermore, the size of the Indonesian archipelago which covers an area well in excess of the United States, requires a properly functioning transportation system if the necessary speedy and intensive contact between the central government and the local governments is to be effectively maintained.

We recognize that it will be insufficient for us to solve only the basic agricultural problem, and that this cannot be done without simultaneously moving forward with our overall policy of national economic development. This means that we must free ourselves from dependence on a few primary export commodities, which now exposes us to violent fluctuations in the world prices of such commodities.

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Although the physical volume of Indonesia's exports actually increased during 1952, the value fell by almost 4 billion rupiah because of the drastic decline in the price of primary commodities.

The drop in prices also meant a deterioration in Indonesia's terms of trade, inasmuch as the prices of exports fell more sharply than those of imports. The index figures for the terms of trade, with 1938 equal to 100, show the following:

1950	-	149
1951	-	110
1952	-	88
January, 1953	-	72

We must diversify our economy not only by broadening the nature of our production for export, but also by broadening our production for home consumption, i.e. by industrialization.

I am particularly referring here to the expansion of the basis of our economic structure through industrialization while preserving where possible, the existing ancillary sources. The Indonesian government is of the opinion that the soundest approach would be based on the unique structure of Indonesia. Everywhere throughout the vast expanse of Indonesia the population has quite spontaneously and autochthonously, striven to compensate for the one-sided agricultural production by developing activities in the field of small industries. These village industries produce consumer as well as capital goods such as ceramic articles and agricultural implements. These small industries are the population's answer to the various forms of under-employment, while they also complement the income derived from agriculture, and thus help to increase the prosperity of the rural areas. The Indonesian government proposes to stimulate and support the small industries with all possible means in order that

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these spontaneous activities of the population may strengthen the economic power of the rural areas. In Indonesia, and I believe, in other under-developed countries, one can observe the phenomenon of a considerable part of the national income centered in the cities. The promotion of small industries will mitigate this inequality and thus tend to give a more equal distribution to income and prosperity.

In addition to these small industries, other industries which process local raw materials for export are further developed, such as rubber and copra. Furthermore, a long-term, large-scale industrialization program has been started which includes the building of an aluminum plant, a fertilizer plant, and various other industries which again will primarily be supplied by raw materials available in Indonesia.

Progress in our economic program has already been made, as would appear from the favorable trade balance in the first half of 1953 which stands at 291,000,000 rupiahs, as compared with a deficit of 19,000,000 rupiahs in 1952.

All the foregoing, combined with our pre-existing advantages of vast natural resources, a large population and tremendous trade potential, indicates the possibility of developments as sweeping as those which occurred in the nineteenth century, although under different auspices and for different purposes. In this connection, I should like to quote from Professor Dobby's book - "Southeast Asia" (page 380):

"Developments of the last century in Burma, Siam, Malaya and Java have certainly shown how rapidly changes can be brought about and how when certain types of pioneering and initiative are concerned, the people of these territories are capable of large-scale action. Directed into forms of cooperative rural and industrial activities aptly fitting their



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traditional subsistence, farming and communal mutual assistance system, their rate of industrialization may prove as remarkable as their rate of commercialization of agriculture over the last fifty years."

For many years the people of Asia were not the masters of their own destinies. Foreign intervention was concerned only to secure advantages for the colonial powers. This fact was necessarily impressed upon the innermost consciousness of the people and penetrated to the very marrow of their being. This consciousness was essential to rally the people to secure their independence. But even after these countries achieved their political goal, the heritage of this indoctrination still persisted.

I think, however, that the people of our country are now becoming aware of the fact that, having achieved independence, they can use their new position of equality to negotiate from strength. I think they understand now that foreign participation can be arranged on terms that can be of benefit to them when they have the power to establish the terms upon which the participation is permitted and, moreover, that their national interests can be furthered and their independence strengthened, rather than weakened, through such participation.

In order to successfully guarantee the outcome of such negotiations, it appears to me that the participants must be equally aware of each other's basic philosophies. This requires on the part of such countries as Indonesia, an understanding of the competitive and profit elements which so strongly dominate American economic thinking. On the part of other nations, it requires also understanding of the basic philosophies as they have been developed in Indonesia. In this connection I would like to briefly clarify the charge of leftism which is so often made regarding policies enunciated by my

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government. First of all, it should be recognized that after a long history of colonialism, political expression would tend to take a progressive, or what might conceivably be called, leftist, direction. To Indonesians the word leftist does not have an unpleasant meaning. In Indonesia it connotes a policy directed against reactionary conceptions, such as feudalism or the theocratic state envisaged by Darul Islam, or attempts to reimpose colonialism. This explains the emphasis in the program of the present government against the guerrilla bands, but the term "leftism" does not carry the automatic connotation of marxism or communism. In the positive sense, the term is a synonym for a feeling of nationalism or patriotism, a devotion to a new conception of developing the country for the benefit of all the people.

Secondly, due to the already described economic discrepancies as they exist in countries like Indonesia, with so large a part of the national income accruing to only a small percentage of the population, the role of a government could not simply be that of a disinterested bystander. If it is to prevent a continuation of the existing economic discrepancies it will have to act and direct in a degree not generally encountered in more economically developed countries. Such governmental action in itself is not necessarily an expression of active espousal of leftist dogmas, as is very well shown by the fact that such non-leftist parties as the Moslem Party, the Catholic Party, and the Nationalist Party, all to a certain degree accept these governmental directions as an absolute necessity. I think it is of the greatest importance that this be well understood by foreign countries because these concepts are so basic to our society and political development, as to make a deviation therefrom a practical impossibility.

We are beginning to be aware, as we hope the other side is, that there can be even greater benefits for foreign groups than ever before,



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precisely because for the first time we are in a position of equality.

This is explained by the fact that, as our country shares in the fruits of development and becomes more prosperous, it will offer a more fertile field for trade and development, and investors will have a greater measure of security, especially as the people become more receptive in direct proportion to the tangible benefits they receive. These would include more employment, greater production, higher wages, greater public works, establishment of more industries and direct participation in the management and ownership of these industries by the Indonesians themselves.

Naturally the activities chosen for development must also not be merely those in which maximum profit can be extracted, but rather those which will contribute to the acceleration and the harmonious development of our country.

The desirability for the United States to participate in developments abroad is such that it would be wholly practicable for you to accept this frame of reference. In the first place, your national security and your industrial establishments require increasing supplies of strategic and other materials. Here let me refer you to a recent speech by Samuel C. Waugh, Assistant Secretary of State for Economic Affairs (Department of State Bulletin August 3, 1953, P. 145):

"It is well to bear in mind that the United States is now self-sufficient in only 8 out of 38 minerals vital to U.S. industry. The report of the Materials Policy Commission prepared under the chairmanship of William Paley forecasts even greater dependency on outside sources in coming years. Along with our growing need and the need of our allies for raw materials for the industrial plant of the free world, there has been inadequate new discovery, exploitation, and development of raw materials."

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In the second place leadership can only come from a country as great as yours because it recognizes its responsibility on a scale broader than that of its immediate economic needs. Here again I quote from Mr. Waugh, although his remarks deal more specifically with trade: (Same citation, P. 146):

"Under-developed countries in need of capital must take action to improve the climate for domestic and foreign investment. However, the major responsibility for leadership in this field is on the United States. As the President has stated: 'Our leadership in the free world imposes upon us a special responsibility to encourage the commerce that assists so greatly in bringing economic health to all people.'"

Given the acceptance of a progressive orientation by foreign groups, I think that a sound policy on our own part would recognize the mutuality of duties as well as benefits.

In the first place this would mean, in general, the establishment of conditions in Indonesia substantially similar to those prevailing in other countries in a similar state of development, including the maximum practicable avoidance of discrimination between foreign and domestic firms.

With respect to discrimination it might be worth repeating what was said here last year by our present Prime Minister, Dr. Ali Sastroamidjojo:

"In this respect, I might again refer to the Indonesian Constitution which states in Article 37, Section 2

'Except for restrictions to be imposed by law for the general benefit, the opportunity shall be given to all, in accordance with their nature, aptitude and ability, to take part in the development of the sources of prosperity

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of the country.' I would like to stress the words 'The opportunity shall be given to all.' No mention is made of any specific group."

The previous cabinet appointed a committee which drafted a statement on foreign investment, which envisaged favorable consideration to the following possible elements: various facilities with respect to taxation, such as the allowance of accelerated depreciation, a reduction of import duties on certain types of capital goods to be used in establishing new enterprises and permitting losses to be deducted from profits before determining the taxable basis during an initial period of the investment; reasonable facilities for remittance of profits, repatriation of invested capital over a period of years, and provision for just and adequate compensation in the event the government takes over any enterprise.

It was also envisaged that foreign enterprises should not, as in the past, discriminate against the Indonesians by employing only foreigners but should make the maximum use of Indonesian personnel and train them so that they will be able to reach the maximum possible development of their capacities.

With the exception of those industries which are commonly reserved for the state, such as public utilities or small scale enterprise, which is suitable primarily for the Indonesians themselves, there are no prohibitions against foreign participation. As a matter of policy, however, it would be preferred that the major interest should be in Indonesian hands in undertakings of great importance. In practice, however, there would be considerable leeway in determining whether majority control should be in foreign hands in specific cases, especially since local capital might not be readily available.

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I invite your participation in the great task of helping to pioneer in another part of the world, many thousands of miles away, as your forebears pioneered here in America. As technology has removed the barriers of time and space, I think it is as feasible for you to set your sights east to Indonesia as it was for early Americans to look to the west.

While God has not made us neighbors, technology has made us friends. Let us cultivate this friendship by wise and cooperative arrangements. To paraphrase a great American, we must all advance together or we shall all fall separately to the many maladies which affect the world in crisis.

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